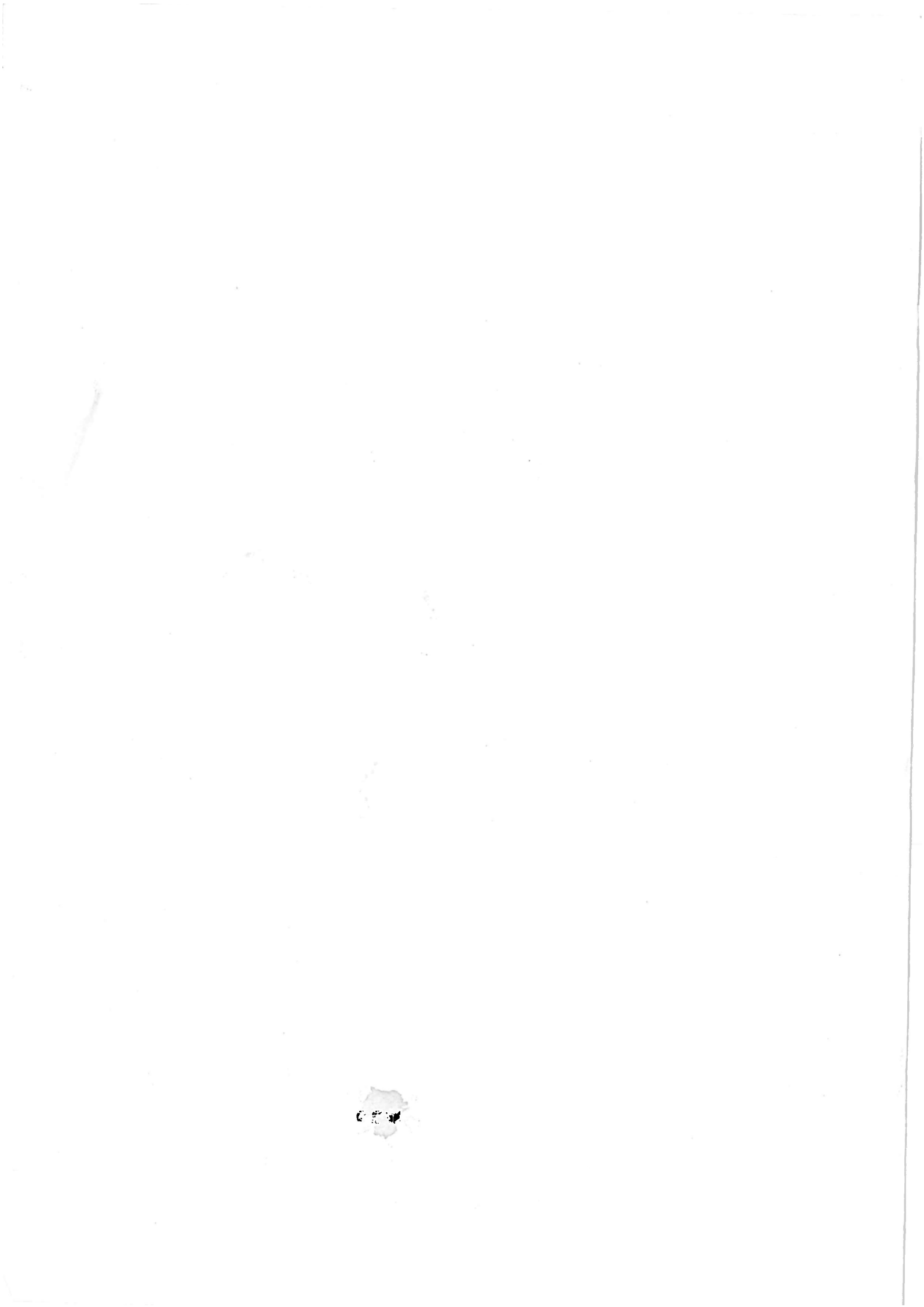


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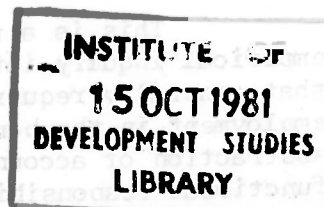
EDUCATION FOR ACCOUNTING AND FINANCE
FUNCTIONS IN BANKING

DISCUSSION PAPER ON "ON-GOING RESEARCH"

By

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Accounting

(Working paper 309)



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ABSTRACT

This is a report of a study that is still going on. The study is an empirical inquiry into the categorization of managerial/executive job positions that generally require college education as the minimum qualification for employment in the banking industry. The inquiry is aimed at facilitating the abstraction of accounting and finance concepts and principles underlying the functional responsibilities normally undertaken by persons in those job positions. The ultimate aim is the integration of such concepts and principles in accounting and finance instruction at the university in order to enhance occupational Kenyanization as the college graduates join the country's labour force.

Education for Accounting and Finance

Functions in Banking

1. Introduction.

"a community must and will shape its education to suit its own needs. If the usual education handed down to it from the past does not suit it, it will certainly before long drop this and try another."

This statement is certainly predictive of today's Kenya which is definitely different from the Kenya for which our current educational system was designed. This is not to say that the system has been static but the changes that have taken place seem not to have had the far reaching effects as the political changes that were characterized by great expectations.

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The attainment of political independence marshalled both latent and expressed desire and need for the Kenyanization of job positions. As a concept, Kenyanization has ramifications, meanings and overtones but it is here used to mean the transfer of control of national institutions from expatriate to indigenous personnel. A common hindrance to that transfer has been claimed to be lack of education, training and experience on the part of indigenous citizens. Education, training and experience are such vast areas that it is necessary to delimit our focus to education and further narrow that down to education for accounting and finance functions in banking, and discuss this in relation to Kenyanization.

Kenya's banking industry is a very consequential sector of the economy. Accordingly, a scrutiny of education and training in the industry is warranted. The study is an empirical inquiry into the managerial/executive job positions that generally require college education as the minimum qualification for employment in the banking industry. The study is aimed at facilitating the abstraction of accounting and finance concepts and principles underlying the functional responsibilities.

Besides the other objectives set out in the Economic Development plans (Development Plan 1966 - 1970, 1970 - 1974, and 1974 - 1978) the government stated categorically that "Foreign enterprises will be informed that the aim of the Government is Africanization of the economy, and they should, therefore initiate or accelerate training and apprenticeship programmes so that Africanization can be achieved rapidly..."²

Training and apprenticeship as phases of education constitute the focal point of this inquiry. Concern is with the relationship between the accounting and finance functions or tasks in the banking industry and the formal instruction given to undergraduate students at the University of Nairobi, covering these two areas. Evidently, this relationship between education and job requirements forms part of the bridge between colonial or neocolonial status and viable Kenyanization.

"Clearly, complete success of Kenyanization policies will depend in the first instance, on the appropriate training of local manpower, and on its availability in the right place at the right moment."³

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In the recent past, this author undertook a comprehensive study (N. Nzomo, "Education for Executive Jobs". E.A. Lit. Bureau, tentative publication date, July 1977) focusing on executives in American business enterprises operating in Kenya. That study revealed that the relationship between formal education and jobs is of paramount importance and of great concern to educators, businessmen, government officials as well as to the students themselves.

Educators are certainly concerned with the attitudes and subject matter underlying competent job performance in order that they may devote time and effort in guiding and exposing students to the relevant perspectives and knowledge. Businessmen are similarly concerned with the same things but from a different vantage. Their concern is with the connections between the abilities of the formally educated and the specific job tasks that they are employed to undertake. Generally, educational attainment is viewed as evidence of trainability, adaptability and ability to shoulder responsibility. Government officials are concerned with designing and implementing development plans encompassing educational goals, while students are interested in pursuing the educational programmes relevant to their career objectives. Evidently then the nature and objectives of the educational process in relation to the need for skilled manpower are of great importance.

The above mentioned study - Education for Executive jobs - had occupational Kenyanization as its major problem mainly because it had been alleged by foreign enterprises that lack of educational qualifications on the part of Kenyans was a major obstacle in occupational Kenyanization. At the same time, it was also observed that in the final analysis it is not the credentials but the underlying process in their acquisition that really matters - the subject matter, scope and degree of mastery. Among the most critical conclusions of that study is a recommendation for overall review and re-design of the educational objectives to encompass relevant subject matter and scope throughout the entire educational process.

Our concern being mainly on High-level-Manpower, we gloss over the lower and intermediate steps in the educational process in order to focus sharply at the apex, the University. As the national institution of higher learning, the University ought to provide the country with formally educated persons who can take up functional responsibilities in the economy to effect Kenyanization. The central issue underlies the question whether the formal educational

process leading to a college degree equips one with the attitudes and functional skills needed on the job - accounting and finance tasks in banking.

Formal education in Kenya has recently become the focus of critical comments by both high ranking government dignitaries, laymen and mass media personnel. The core of this criticism is inadequacy or irrelevance of the education provided by the system. This fact seems so evident that "No one will dispute that Kenya's education system is in need of a major overhaul and reform"⁴

The need for fundamental change in the educational system and process is widely acknowledged. In its chapter on Education and Training, the Development plan (1974 - 1978) charges the educational system with very heavy responsibilities, the discharge of which is aimed at enabling the individual to realize social and economic advancement. But even so, the planners are critical of the system! "The educational system.... is seen as

the most accessible route to individual, social and economic advancement.... / but 7 the structure and content is highly selective. Its objective is to produce a few individuals who are equipped for placement in the modern or formal sector of the economy. Its highly selective nature and exclusive orientation towards the modern urban sector are in fundamental contradiction to the social and cultural values upheld by the Government".⁵

Our concern in this inquiry is more specific in that we are trying to verify whether that "exclusive orientation towards the modern urban sector" is in itself relevant and adequate for the accounting and finance functions in banking. The planners in fact confirm the need for this kind of inquiry in that it is further pointed out that the educational system has been producing "in ever-increasing numbers individuals whom the formal educational system has not equipped with the skills and qualities required by the economy."⁶ To make the matter worse, "...formal qualifications rise steadily and usually bear no functional relationship to the job concerned".⁷ And, indeed this justifies the claim by foreign enterprises that Kenyan citizens do not have the education needed to enable them to take over Managerial/Executive job positions from expatriate personnel.

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The development plan lays out structural changes in educational system and discusses the various components of the proposed system separately, each with its planned projections and expenditures. The need for qualitative changes is emphasized and the task of delineating what is to be changed and towards what direction is placed on the National Commission on Education

Objectives and Policies. The report of that commission is expected in the very near future.

It is important to emphasize the fact that the educational system is charged with the creation of high-level manpower. "The educational system, therefore, must promote the literacy and numeracy that are essential for the full enjoyment of life by all the people, to meet national manpower requirements and to prepare citizens for gainful employment."⁸

The role of education in facilitating Kenyanization of the economy is also emphasized by the ILO mission on Employment, incomes and equality in Kenya. The mission pointed out that "Exact national training requirements could be better assessed if closer integration with manpower and educational planning and policies.....could be achieved. But the approved training programmes must be monitored. The granting of protection licences and so forth should be tied in with agreed Kenyanisation programmes."⁹

The relevance of formal education has truly become a critical national issue. The alleged unemployability of college graduates in a country that is supposedly in short of skilled manpower is an unmistakable evidence of the incompatibility of the products of formal education and job requirements. "The hard fact is that the educational system in this country...is in a straightjacket.....churning out scores of thousands of students...on the job market...with little prospect...to secure...employment...The education system today bears a major part of the blame for the acute unemployment problem..."¹⁰ The paradox here is that the mechanism expected to prepare people for employment has done just the opposite. "Kenya's education system had been producing people with general education, who can look only to white collar jobs. This has resulted in a large number of educated persons being unemployed..."¹¹

One wonders to what degree this same educational system is not to blame for irresponsibility and mediocrity in a variety of functions and the readiness with which foreign enterprises have window dressed and created caretaker groups!!!

The system currently in operation was inherited from colonial times and while it may have its virtues, it is evident that changes in objectives and design in order to harmonize with the environmental needs are necessary. The inherited design was for a colonial society and independent Kenya needs an

independent design of objectives and procedures. In order that the designed system may meet the environmental needs, it is necessary to assess both current needs and likely future needs in terms of skill requirements. But one has to be cautious since the skills do not exist devoid of attitudes and analytical perceptions generally engendered through the formal educational process. Besides, education should do more than simply equip one with utilitarian skills for earning a living.

The assessment of environmental needs is an enormous undertaking and one is bound to look at whatever works have a bearing on the problem of Kenyanization and employment. One of the critical works in these areas is Colin Leys' "Underdevelopment in Kenya".¹² The thrust of his inquiry is the relationship between the private sector and the pattern of national development since independence. The commercial banks - the subjects of the current study - as well as the American business enterprises covered by the Nzomo study mentioned earlier-form decisive elements of the private sector of Kenya's economy. The relationship between the private sector and development is a vast area that touches nearly all phases of the society. Leys' work focuses sharply on neo-colonialism - "a system of domination of the mass of the population of a country by foreign capital by means other than direct colonial rule."¹³

Foreign capital is the element that is most pertinent to this inquiry. The banks that we are focusing on are all foreign with the exception of the Central Bank of Kenya, National Bank of Kenya, Cooperative Bank of Kenya and Kenya Commercial Bank. As such, they are likely to engage in all sorts of devious means in order to contain the pressure for Kenyanization without actually effecting viable Kenyanization. The common means include "window dressing" and the requirement of educational credentials that can only be obtained by people who are already in service in the banking industry - Associateship of the Institute of Bankers.

Another pertinent document is the ILO report on "employment, incomes and equality - a strategy for increasing productive employment in Kenya". The report pulls together the views and talents of more than fifty experts working in liaison with the relevant ministries of the government. The mission viewed its concerns as including "the frustration of job seekers unable to obtain the type of work or the remuneration ... which their education has led them to expect."¹⁴

The mission traced the background of the conditions prevailing at the time to the great expectations kindled during the struggle to throw off the yoke of colonialism and fanned by the advent of political independence. The mission noted that "as education expanded fast, ... thousands of young Kenyans, with their parents and other supporters, are beginning to find their certificates almost worthless at least for obtaining jobs."¹⁵

The report makes it evident that the mission became, or rather was already, quite aware of the deficiencies of the current educational system and pointed out that "it is clearly essential to relate education and training at each level to the needs of terminal students, e.g. the majority leaving to try to find employment..."¹⁶

The mission's overall problem was employment. Education features significantly as a means (if not the means) of solving that problem. The mission pointed out emphatically that "Kenya needs to embark on a long-term and fundamental reconstruction of its whole educational system. Changes of structure, coverage, content and quality are long overdue, especially from the view point of employment strategy"¹⁷

A key motivational element in undertaking this study is to aid in re-designing the educational curriculum at the University. (Discussions in curriculum revision in the Faculty of Commerce are currently going on). Accordingly, the study is an empirical enquiry into job positions, the skills, attitudes, and analytical perceptions required for accounting and finance functions in banking and their relationship to pertinent formal educational instructions. It is believed that from the job descriptions, it is possible to perceive and abstract the concepts, principles and procedures underlying the functional responsibilities normally undertaken by persons in those job positions. The ultimate aim is the integration of such concepts, and principles in accounting and finance instruction at the University with view to enhancing occupational Kenyanization as the college graduates join the country's labour force.

2. Background Circumstances

The University of Nairobi offers an undergraduate program of studies leading to the bachelor of commerce degree. The Faculty of Commerce was constituted in 1964 although commerce had been offered at the University for many years. The faculty is broken down into three departments - Accounting,

Business Administration and Management Science. Within the accounting department there used to be a banking option that was discontinued in 1972. This was done as a result of the report reviewed below.

In May 1972, a meeting was held between representatives of the three main banks - Barcklay Bank, Commercial Bank of Africa and the Standard Bank - and University representatives - Dean of the Faculty of Commerce, Chairman of the Department of Accounting and Visiting Professor of Accounting and Coordinator of the CIDA Project Team. All persons attending this meeting were expatriates.

A second meeting was held in August, 1972. This time, the University was represented by the Dean, Faculty of Commerce and the Chairman, Department of Accounting, while the banking industry was represented by Barclays bank and the standard Bank. The Barclays bank representative was then the head Lecturer of the Banking practice course at the University and the representative of the Standard Bank was then the head of the Training Centre at Standard Bank, President of the Kenya Institute of Bankers and Lecturer in the Banking Practice course at the University. Again all participants in this meeting were expatriates, each playing several roles. Both meetings had the Banking option at the University as the item for discussion.

The report of these meetings, written by the then Head of the Accounting department, notes that the banking option programme started in 1970 had "resulted from community pressures, as well as demand for such training by Faculty of Commerce students".¹⁸ The report presents data on enrollments into the banking option programme and academic results for the three academic years. (70 - 72) indicating that (1) "none of the Kenyan Banking option graduates were able to find employment in Kenyan banks... (and) (2) Banking Option students... achieved considerably poorer academic results than Accounting and Business Administration students generally."¹⁹ Although the report does not make a conclusive recommendation, the banking option was discontinued at the end of the 1972 academic year.

Some observations need to be made. The banking industry personnel at that time was virtually expatriate and the tactics of frustrating and delaying Kenyanization included the requirement of foreign professional certificates as a minimum qualification for employment. Obviously, none of the graduates from the University of Nairobi had such foreign certificates. Consequently, none

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found employment with the banks. Secondly, the Lecturers were both expatriate and banking executives. Why would they teach students the skills that would make it possible for the Kenyans to take over the jobs of the same banking executives in the process of Kenyanization?

Vested interests of the decision makers rather than needs of the country seems to be more the reason for discontinuation of the banking option. Paradoxically, the University is the institution charged with the responsibility of training people who would eventually take over from the expatriates in the industry yet in this case it seems as if the University authorities cooperated with the industry to derail the relevant training of the local personnel.

Shortly after the Dinman report, a survey project was undertaken by F.J. Peacock sponsored by the International Monetary Fund in Association with the Central Bank of Kenya. The Report is titled "Survey of Training and Management Education in the Banking Industry of the Republic of Kenya," and is dated May/June 1975. The survey was undertaken with the main objective as "to advise the authorities of the Central Bank of Kenya on the feasibility of establishing a local bankers' training institution, ... on the range of the curricula which might be offered by such an institution, on its prospective financing arrangements, and on arrangements for the selection of trainees from participating banks and other financial institutions."²⁰

At initial briefings prior to undertaking the survey, officials of the Central bank emphatically pointed out that "the authorities were much concerned at the pace of Africanization of key posts in all the banks and would welcome its acceleration if at all possible."²¹

The magnitude of the Africanization problem as pointed out in the Nzomo study quickly became apparent to Mr. Peacock. Consequently, he broadened the scope of his survey to cover a wide range of personnel problems, including "recruitment, relations with educational bodies, the image of the profession, (if profession it is), post experience development, manpower planning, two tier recruitment, management succession."²²

Mr. Peacock had conversations with personnel in the then twelve banks separately. The report does not make it clear whether the conversations followed any structured format, or whether the matters discussed with each

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person was the same in nature and to the same depth. Part of the report is devoted to a description of the banking scene in Kenya, related organizations and the training centres and educational programmes organized by some of the banks. It is noted that "the banks would be advised to examine very closely present policies if the process of long term Kenyanization is to continue..."²³

The direct connections between what Mr. Peacock was involved in and Kenyanization made it necessary to interview the director of the Kenyanization of Personnel Bureau. The Director was not quite conversant with Mr. Peacock's report but the views expressed therein are typical of problems encountered in other sectors of the economy. The Bureau was set up to advise on work permits, assist employers in the Kenyanization of jobs and act as an employment service for skilled managerial and professional workers and trainees. In its efforts to effect Kenyanization it encounters a plurality of problems. One of the major problems is lack of coordination between the Bureau and manpower and educational planning authorities. Another is lack of coordination between the Bureau and the immigration office which actually issues work permits. "Often permits have been issued before the Bureau has determined that a Kenyan is not available". (Interviewee quoted verbatim). With problems of this kind, "the Bureau is frustrated in its work, faced on the one hand with a large number of unemployed school leavers with general academic education for whom the prospects of obtaining white-collar jobs are bleak, and on the other hand with a lack of suitably skilled and trained persons for whom there is a ready demand."²⁴

Most of the recruitment into the banking industry has been of what Mr. Peacock calls 'O' level boys! and points out that "it would be folly to suppose that an industry which needs to be run in a first class way... can be run indefinitely with second or third class human material; it would be breaking faith to use such material when the community has invested in others also available that may become community leaders."²⁵

The obvious implication is that the banking industry has been recruiting lower caliber people in place of college graduates and thereby perpetuating the retention of managerial/executive jobs by expatriates. Even if the expatriates are of the same educational level with the Kenyan, they usually have longer experience and perhaps professional certificates. It is to

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be remembered that during colonial days, Africans had no access to responsible positions. Consequently, they did not have the opportunity to gain experience. Also with respect to educational credentials, it is important to note that all professional certificates are given by foreign professional societies. This fact puts the aspiring Kenyan at a great disadvantage in that the material is in a foreign language, the subject matter is not locally based, text books are written in unfamiliar terms with examples and cases far removed from the candidates' social experience and the correspondence courses are of dubious worth, since passing the examination is never a guarantee of promotion. The banking industry must not have had very encouraging experience with college graduates. According to Mr. Peacock, "in the field of graduate and post graduate recruitment, ... the youngman is difficult to satisfy and control, ... working...with...men and women, who have not his IQ or his potential but who usually are quicker and more assured by experience in carrying out the day's task."²⁶ Seemingly, the selective educational process that finally brought the youngman to the University of Nairobi severely mangled his character and warped his psyche. To him, his degree is a passport "to a better life... and is a real meal ticket in a country where qualified and highly educated indigenes are still in short supply"²⁷

Mr. Peacock draws attention to the fact that Kenya's future leaders are going to come from the University and "banking must recruit its share and learn the best ways of harnessing their energies and potential."²⁸ He recommends that the banking option course should be enlivened and made to succeed.

Regarding the establishment of a local bankers' training institution, Mr. Peacock found no general support for such a project, and did not advocate its being set up in the foreseeable future. According to the Central Bank authorities however, a local banker training institution would greatly enhance Kenyanization.

Mr. Peacock's report is concluded with a summary of measures which can assist the education of bank men in Kenya and effectively further the policy of Kenyanization.

The initial measure is a recommendation for conversion of the Nairobi Centre of the Institute of Bankers into Kenya Institute of Bankers to be governed by a council nominated by the chief executives of the constituent Banks. The Council would replace the current Kenya Bankers Association. There would be

a full time director of studies and research with a Kenyan assistant director who would have reversion to the senior post. The report continues to lay out the organizational structure, staffing procedures and delineates functional responsibilities.

The Peacock report was not very well received by the banks and it is my understanding that the banks are now doing a study of their own.

In April 1975, "The Banker" published an article by Eric Glover titled "Banking Education - a scheme for the future," which reported on review of banking education policy as laid out by the Institute of Bankers. The review according to Glover had been necessitated by changes in banking and the rapid growth in higher education. Banking activity has become more diversified, especially in the provision of financial services. Bankers often find that they need to know more than they used to about Investment, Instalment Finance, Taxation and even the travel business. The weakness of the banking education programme "seemed to be that it offered only a single package, which was well suited to a homogeneous set of recruits, but less and less appropriate as educational attainments on entry showed increasing variation, and as more staff entered specialist departments".²⁹

The review committee found that "a formal banking education was considered essential, both as a foundation on which to build a banking career, and as an objective yardstick by which to measure the young banker's will and ability to succeed... the Institute's qualification should be comparable with the best of those offered by other professional bodies, and indeed should aim at the same academic standing as a University degree".³⁰ To attain this objective the committee recommended a new qualifications structure that caters for entry into banking at different ages and different educational levels, variety in the content of courses according to the specialist interest of those concerned, and making the banking qualification known and accepted elsewhere.

It might be useful to point out that hitherto the banking qualification has not been given recognition by other employers.

3. Accounting and Finance in Banking

The role of banking as well as its involvement in economic activity is common knowledge (at least to the readers of this paper). It is only important

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to sketch briefly how that role is played in order to extract the accounting and finance functions for their underlying concepts, principles and procedures. Let us start at the appex.

The role of the central bank is different from that of commercial banks and other financial institutions. "The Bank shall be the fiscal agent for all of the Government's transactions with international financial institutions of which Kenya is a member or with which Kenya is associated" (Act p14). It is also the bank of banks - the safe custodian and controller of money possessed by banks and other financial institutions. In this role, it has the capacity to regulate the quantity of money in the system. "The Bank shall open accounts for and accept deposits from, collect money and other monetary claims for and on account of, specified banks, and generally act as banker to specified banks" (Act p15). In banking for the banks and releasing money into the system, cash receipts and cash disbursements that involve the accounting concepts of classification and recording the transactions come into play.

The commercial banks and the other financial institutions that utilize the central bank are actually the central bank's customers. Accordingly, the central bank has a customer's ledger account for each of its customers, and the traditional function known as book-keeping is obviously needed. Even without embroidering our discourse with the process of money creation by banks or the role of the central bank in executing fiscal monetary policies of the government, it is evident that if customers' accounts have to be maintained and cash receipts and disbursements recorded, some accountant has to design the system-records and procedures. Similarly, someone would have to see to it that the system functions as it should while someone would have to process the data and prepare financial statements. All of these - transactions analysis and classification, recording receipts and disbursements, posting and maintaining ledger accounts, footing accounts, extracting trial balances and preparing financial statements as well as designing, installing and maintaining the system - are accounting and book keeping functions. Invariably, they remain the same throughout the banking system with the details of operation varying according to the specific banks' design. For the purposes of this study, our concern then is with the accounting subject matter and scope that one should be exposed to in order to be expected to do all this.

The finance functions are less "cut and dried" in comparison to the accounting functions though they may not be less demanding. In the case of the

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central bank with the other banks as its customers, the screening of worthy customers to open accounts for is a foregone function since the central bank is consulted in licensing the other banks. It is the other end of the money cycle - paying out - that financial analysis is more complicated. These complications might be most apparent if our focus was on the commercial banks.

There are 14 commercial banks in Kenya at present operating over 260 bank branches, sub-branches and agencies besides several mobile bank units. The commercial banks account for more than 87 per cent of total deposits in the country.

The bulk of the transactions in Commercial banks are with individual customers or companies - which may include other banks and financial institutions. It is these individuals and companies that make up the banks' customers.

The need to keep and maintain ledger accounts with each customer is the same as in the central bank and all accounting activities of transaction analysis and recording remain the same in principle although the details of operation may differ depending on the nature of the transaction, customer, amount of money involved and the accounting system used in the specific bank.

In day-to-day operations, it is very difficult to specify the discipline economics, finance, accounting, etc. - that bears directly on the execution of functional responsibilities. If for example we think of the typical bank and the functional responsibilities assigned to the various officers and overseen by the general manager, nearly all disciplines are involved in the executive of the general manager's responsibilities. Accordingly the general and technical "know-how" acquired through accounting and finance education and training gets mixed up with that acquired in other disciplines in such a manner as to make the contributions of each discipline indistinguishable. The functions vary according to the needs of the customers. "Like other financial institutions, commercial banks make loans and investments, take deposits, act as securities underwriters and brokers, provide safety deposit facilities and administer estate...they also create and destroy money and allow their creditors to transfer claims to money through the use of checks."

In making loans, certain financial analysis functions must be performed. Credit analysis focusing on the borrower - character, purpose for borrowing, ability to pay back etc - is essentially a finance function that leads to a decision either to make or not make the loan. Some knowledge of psychology, understanding and

interpretation of forecast cash flow statements as well as administration are definite assets to the bank officer.

Investing money that may lie fallow in the bank is a very important and essential finance function. Some determination of the available investment opportunities and the discrimination of which ones are profitable as well as the eventual choice of the one or several to invest in is a central finance function. The bank officer responsible for making such determinations would do well to have some quantitative methods and accounting background.

In underwriting securities and acting as securities brokers as well as estates administrators, the bank officer would do well to have commercial law and general administrative "know-how", at least well enough to decide which technical expert to call on to assist in the decision making process.

In the educational endeavour, it is desirable to be broad-minded and take into account the possibility of graduates ending up in non-bank financial institution such as savings and loan associations, Insurance companies, Credit Unions and Finance companies. In all of these, the accounting and finance concepts, principles and procedures upon which their operation run differ from what we have so far discussed in connection with the central bank and the commercial bank only in degree, but not in kind. There is both inflow and outflow of assets into and out of the organization. The nature of these inflow-outflow transactions has to be analyzed and systematic records of the transactions have to be made. At a determined point in time, the financial position and results of operation have to be summarized and presented in form of financial statements. The designing, installation and upkeep of the system to keep track of the transactions and finally come up with financial statements, are accounting functions. Similarly the "where and why for" of the inflows and outflows of assets into and out of the organization are finance functions. The determination of optimal financial investment portfolios through the analysis of the relationship between interest yields on differing financial assets, are finance functions.

Since money and other forms of liquid wealth that compete for a place in wealth portfolios have a unique relationship to aggregate economic activity and welfare, a solid background in economic theory - both macro and micro- is an asset to the finance officer. The same is true of the accountant who has

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to prepare the "Flow of Funds Accounts" as a means of organizing the data on the sources and uses of funds. It is these accounts that facilitate the analysis of the relationships between financial markets - money and capital - and the markets for real goods and services. The preparation, comprehension and use of flow of funds accounts requires some knowledge of the multitude of the financial instruments traded in money and capital markets. Financial markets are complex and there are many participants demanding and supplying securities at varying yields. The process of arriving at a choice between alternatives is often complicated, usually utilizing indexes whose derivation and computation need accounting, mathematical and finance "know how". The essential problem in all this analysis is to determine the optimum portfolio, the one which gives the greatest return and satisfaction at the lowest possible risk.

The accountant and the finance officer are deeply involved in operations of money. Knowledge of monetary theory as a subject matter area in their economics background would certainly seem desirable. After all the accountant and the finance officer are involved in the economic problems centering on the best ways of allocating productive resources among competing uses, the determination of prices of productive resources and prices of final products.

4. The Banking Industry in Kenya

The banking industry in Kenya is made up of 16 banks and their net work of branches and sub-branches. At the apex is the Central Bank of Kenya, headquartered in Nairobi and operating a branch in Mombasa - the port of entry into Kenya and Central East Africa. This bank recruits secondary school leavers for clerks, college graduates and specialists with related experience gained elsewhere for bank officers. After recruitment, there is an induction courses aimed at familiarizing the new employee with all the departments before settling to a first disciplined post. Occasionally, there is a special internal course for officers complementing outside short courses conducted by management and consulting institutions. At one time, training and development was supervised by an advisor from the bank of England, but at the moment this important activity seems to be in need of someone, as Mr. Peacock pointed out in his report.

The Central Bank, in conjunction with the Treasury regulates banking activity throughout Kenya. "The principal objects of the bank shall be to

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regulate the issue of notes and coins, to assist in the development and maintenance of a sound monetary, credit and banking system in Kenya...and to serve as banker and financial adviser to the government."³² IN order to issue an operating license to a banking enterprise, a scrutiny of the capital structure of the proposed enterprise, the nature of business that the enterprise shall engage in, and planned local recruitment, are done. Usually there is extensive consultation between the Central Bank, the Ministry and the Treasury. It is to be remembered that "The Ownership of the entire paid up capital of the Bank shall be vested in the permanent secretary to the Treasury"³³

In connection with nature and level of education required for recruitment and employment in the banking industry, the interviewee at the Central Bank stated that "banks state categorically that they really have no interest in recruiting college graduates". This attitude is founded upon the fact that most of the banking executives do not have any college education. Invariably, the majority of them started at the bottom as clerks and worked their way up the ladder through experience and acquisition of credential through the Institute of Bankers. As such they can hardly see why anyone should enter the profession somewhere above the bottom simply because one has a college degree.

The central bank, as an agent of the government is also concerned with Africanization, which, according to the interviewee, underlies most of the issues covered by Colin Leys in "Underdevelopment in Kenya." Essentially, Africanization amounts to the creation of "a caretaker group", for foreign capital. The government's policy with respect to banking, "its control of the commercial banking system was not intended to bring about new thinking or practices in commercial banking."³⁴ Without change in thinking or practice, Africanization amounts to very little more than window dressing. Accordingly the need for high calibre manpower does not really arise. Actually high calibre manpower is seen as inimical to the system. It is to be remembered that it was the central bank that commissioned Peacock to do the survey reviewed earlier - that recommended the localization of banking education and the pertinent examinations through making the Nairobi Center of the Institute of Bankers an autonomous institution. The report and its recommendations were unacceptable to the Kenyan Banking industry. We have yet to learn what the central bank shall do about these recommendations.

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Banking activity is conducted by the commercial banks - Algemene Bank of Nederland, Bank of Baroda, Bank of India, Bank of Tokyo, Barclays Bank International, Commercial Bank of Africa, First National Bank of Chicago, First National City Bank, Grindlays Bank International, Habib Banks, Kenya Commercial Bank, National Bank of Kenya, Standard Bank Limited and recently the bank of Credit and commerce, Co-operative Bank and various financial institutions such as the Housing Finance Company of Kenya. For this study the intention was to visit all commercial banks, the cooperative bank and the Central Bank of Kenya. So far only three - Bank of Tokyo, Cooperative Bank of Kenya and First National Bank of Chicago - have not been visited. All have been contacted and promised to call back to arrange for an interview. The Central Bank was briefly discussed above and therefore, the ensuing discussion focusses on the remaining commercial banks.

All interviews (still going on) are done by using interview guide C. Most of the interviewees have been either Personnel Managers, Directors or holders of some other job title whose functional responsibilities includes screening and recruitment training managers and the Deputy Governor of the central bank. The procedure has been to call up the bank and make an appointment to see the person concerned at his or her convenience. All persons have been very cooperative. Some are naturally more conversant than others and some appear reluctant in answering some questions and want to check with "higher ups" before conceding to be interviewed. In several cases, the initial interviewee has proved inadequately informed to answer the questions. In most cases of this nature, I have gone to the next person "higher up" or the initial interviewee has made the appointment as a continuation of the interview. In a few banks, I have interviewed only one person while in the others I have talked to as many as five. Some interviews have turned out to be conference with two or more banking personnel at the same time. On the whole, the interviews have been smooth and informative. All interviewees are located in the city.

That recommended the formation of a committee to study the banking system in Kenya and to submit a report to the government. The committee was formed in 1964 and its report was submitted in 1965. The report was published in 1966. The committee was headed by the then Governor of the Central Bank of Kenya, Mr. J. M. Njiru. The committee's findings and recommendations are summarized in the following table.

The job categorizations are more or less uniform in all banks:-

1. General Manager
Manager, Director
Executive Officer
These were titles descriptive of the top man in the bank.
2. Assistant General Manager
Asst. Manager - Operations
Asst. Manager - Personnel
Asst. Manager - Credit Dept.
These were titles descriptive of officers charged with specific responsibilities.
3. Banking Officer. A title descriptive of college graduates and other experienced personnel with the Managerial/Executive cadre.
4. Section Heads.
5. Supervisors.

The last two categories are semi-managerial/executive functions and the jobs are manned by "A level" and "O level" persons, who are expected to move up eventually as they gain experience and pass their banking examinations.

In all the banks, newly recruited employees enter the industry through the bottom three positions, depending on educational level, experience and certificates of the Institute of Bankers. Initial contact is usually through Newspaper advertisements and "walk in" applicants. After recruitment there is usually an "on the job training" program lasting between 6 months and two years depending on the person's educational background, activity, diligence and the job position. Most of the Banks utilise the Kenya Commercial Bank Training Programs and facilities while some send their trainees to their overseas Headquarters to be trained there. Others have their own training schools and tailor-made programmes.

Whereas the preferred credential for recruitment at the bank officer level is the "Associateship of the Institute of Bankers (AIB)" the college degree certainly offers some advantages, and the Bachelor of Commerce (B. Com.) is preferable to the General B.A. The B. Com. is preferable because the underlying subject matter is commerce and has "the Accounting input in the course content". (statement by an interviewee). No one expressed preference for a degree from either a specific university or a specific country. They reason that "it takes shorter to train a college graduate into a banker than it takes to train an A level or O level person".

Nearly all interviewees were inarticulate when confronted with the question on "the best way of educating bank officers". The ways had been delineated as (1) Academic Education, (2) Professional Education and (3) On the Job Training. There did not appear to be doubts as to what each "way of educating bank officers" meant but the difficulty was in choosing "the best way". Nearly all interviewees stated that all three are essential with "academic education" forming the foundation, "on the job training" molding and sharpening functional skills, and "professional education" representing continuous involvement and development.

In getting job and executing functional responsibilities, nearly all interviewees considered formal education to be either simply "useful" or "very useful". On initial employment and training, the value of formal education may not be apparent but "gradually people realise the usefulness of education". (An interviewee quoted verbatim). Some interviewees called attention to some seemingly adverse effects of formal education on personality and stated categorically that "college graduates have a 'chip' on the shoulder". (Interviewee quoted verbatim). The selective educational process that finally brought the young man to the University of Nairobi severely manaced his character and warped his psyche. To him, his degree is a passport "to a better life.... and is a real meal ticket in a country where qualified and highly educated indigens are still in short supply"³⁵

Free comments on the usefulness of formal education in both getting the job and on executing functional responsibilities were varied from being considered to be beneficial to being considered to be detrimental to character and personality. "Formal education is dangerous if limited" (interviewees quoted verbatim).

The views of these interviewees in conjunction with criticism of the Kenyan educational system already noted would lead one to conclude that the nature of the educational process, its aims and procedures are in a dire need of critical examination and redesigning, if it is at all to be of service to the country as is expected.

All the interviewees indicated that they had heard of the Peacock report but very few thought that it was significant in terms of its recommendations contributing toward improving banking education and affecting Kenyanization. Surprisingly enough, only one was aware and familiar with the Dinman report that culminated in the termination of the Banking Option at the University of Nairobi.

"In House" Educational Endeavours

The banking industry conducts the education and training of its own employees through a variety of methods. The method that has overall acceptance throughout the banking industry is the correspondence course leading to the Associateship of the Institute of Bankers. As already mentioned, the correspondence courses are conducted by the Institute of Bankers, London. The examinations and issue of certificates to the successful candidates is also done by the same body. The institute conducts its affairs in Kenya through the Nairobi Center of the Institute of Bankers.

The other educational method is made up of a variety of training programmes conducted by each bank either individually or in conjunction with some other bank. The material is selected to meet specific skill requirements and the duration of the course depends on trainees' background, ability and level of competence required. There does not appear to be a systematic assessment of the relationship between the course and subsequent job performance although in some cases, there are follow-up reports. One can only hope that those who get the opportunity to take these courses prove more productive - quantitatively and qualitatively - than their colleagues who do not take the course.

One of the recent, well known training facilities is the Kenya Commercial Bank Training School situated on the 9th floor of the Kenya Commercial Bank building in industrial area. This school serves the 39 branches of Kenya Commercial Bank by offering courses in a variety of functional areas in banking. There is a 3 day induction course for newly recruited employees. The other courses are of 2 and 3 week durations.

A study of the course descriptions - Basic Banking, Cashiers, Accounts, Advances, Remittances, Passing Clerks, Intermediate, Section Heads, English Improvement, Management, Balance Sheet Analysis, Bills - and subject matter covered indicates that the courses are aimed at "lower level" banking personnel - clerks and section heads.

The School was established in the 60's with the express aim of providing professional education and in-service training for banking personnel. The short-term goal of the courses is improved performance and the long-term goal is personnel development and Kenyanization.

The trainees are selected by branch managers after receipt of the training program from the school. The training program is actually a time table of the course to be given throughout the year. The branch managers select what courses their employees would take, and thus, actually select the trainees. The teachers and administrators are full-time employees of the Kenya Commercial bank, all at "officer" grade.

At the end of the course, the branch managers receive a report from the school on the trainees' performance. Eventually, there is a "Feedback on the Effectiveness of training". This is a report from the branch manager to the Training School to indicate whether the performance of the person that received the training has improved. According to the interviewees at the Training School - Secretary/Assistant to the Training Manager and a colleague - all reports show that all courses have been effective. On the average, 500 trainees per year take these courses. There are no diplomas issued at the completion of the course although various tests are given throughout the course, and then it ends with a 2½ hour final test.

The emphasis of all the courses is "how to do it" as opposed to exposure to generally applicable principles. If we may take the "Cashiers Course" as an example, "the main emphasis is on the mechanics of cashiering, balancing, tracing difference, etc...."³⁶

The Standard bank too has a training facility that they prefer to call a training Center. It was established as far back as 1957 mainly to train Asians and Europeans - mainly clerical staff at that time. As time went by and most of non-citizen staff ^{left} Kenya after independence, it became necessary to train Kenyans to take the vacant positions.

The training objectives are now changing with the thrust of the courses aimed at clerical staff, Branch Accountants, Section Heads, and Junior Managerial staff. The selection of who comes for the course is done by the branches. The shortest course lasts 3 days and the longest 5 weeks. Senior officers are taken overseas for their training.

The crucial question with these "in-house" educational endeavours concerns the level and long-run objectives. Since the programmes are tailor-made, they are meant to meet current skill requirements perhaps without the progressive perspective that would enable the trainees to move up the ladder and eventually take over from the expatriate bosses. If the question is examined in another light, it is questionable whether the country should rely on the industry to carry out its own education in the process of Kenyanization. Can the expatriate managerial/executive personnel really be expected to design and implement educational programmes to train Kenyans to take over?

A little reflection shall reveal such action to be very unlikely. The banks are still sticking hard to the requirement of credentials of the institute of Bankers, London. This approach in the education of Kenyan nationals was disapproved of by the "Training Review Committee". The committee observed that "a number of accountancy courses are aimed at taking foreign qualifications or training for the foreign qualifications..."

We believe this is unnecessary (because) where training is geared to a foreign qualification, this involves the trainee in having to assimilate a great deal of useless knowledge.... We see no justification for this. We further recommend therefore that all training for accountants should be aimed at obtaining the local qualification and that training for foreign qualifications should cease".³⁷

Whereas the committee focussed on the public sector, their observations and recommendations seem equally applicable to the banking industry. In cases parallel to the "in-house" educational efforts in the banking industry, the committee pointed out that "lack of success of certain technical assistance projects has been due to the failure of technical assistance personnel to work for their own replacement by local officers ...".³⁸

Even if the "in-house" educational efforts of the banking industry could be viably relied on, they would need to be coordinated with overall national educational efforts. This is what has been advocated by all authoritative bodies ever since independence: "future training programmes should be worked out in the framework of national, rather than sectoral needs and that a national approach to training be developed".³⁹ Conclusively then, the refusal by the banking industry to hire the graduates of the University of Nairobi and requiring foreign credentials instead as basic requirement for employment and advancement is inimical to national development. The paradox lies in the observation that "the country continues to experience severe manpower shortages particularly of skilled workers and university trained professionals".⁴⁰

Accounting and Finance Concepts and Principles

The titles descriptive of the job position held by the top man in the bank and his assistants encompass the accounting and finance concepts and principles discussed earlier. The general manager may not be an accounting technician but is expected to be conversant with accounting terminology and uses of the profession to be able to comprehend and discuss accounting matters with the accounting technicians in his service. He may not know the accounting procedures for data capture, processing and presentation but should know how the data is derived to assess the results of operations, understand what financial statements show and their limitations.

In the area of finance, top echelon managers may not know the techniques of computing the indexes used in discriminating investment projects but they are expected to understand such indexes and their implications well enough to be able to make investment decisions by the use of such indexes.

Doubtlessly, the attributes of a top echelon manager are many and varied. If, by some means, one could be an accountant and a finance technician along with the managerial skills of planning, directing and controlling the execution of the plans, so much the better.

The bank officer job title is really not a descriptive title from which specific accounting and finance concepts and principles could be abstracted. It appears to be more of a "catch all" job title given to newly recruited managerial personnel till they prove their worth to the bank. However, since the basic requirement is either a college degree or working experience buttressed by Associateship of the Institute of Bankers, it is evident that one is expected to be technically competent enough to do basic accounting work in data collection, processing and statement preparation, and to be able to compute basic finance indexes, such as cost of capital, cost-benefit ratios, discounting rates, rates of return, etc.

Section heads and supervisors are semi-administrative functions but if one is supervising bookkeepers and tellers, one should know the accounting techniques of recording cash receipts and disbursements, the maintenance of ledgers accounts, posting and extracting trial balances, etc. Similarly, if one is the head of the internal audit section, one should know the mechanism and procedures of internal control and the built-in checks and controls.

In a nutshell, these are the accounting and finance concepts, principles and procedures underlying the job positions generally used in the banking industry. They are really not much different from what is currently included in the accounting and finance courses leading to the degree of Bachelor of Commerce at the University.

This is argued by the fact that those who enter the banking profession with a college degree are exempted from the basic parts of the Institute of Bankers examination. Obviously, the curriculum of the Institute of Bankers overlaps with that of the University. It does not seem far fetched to conjecture that the Institute of Bankers, the only one in the world, situated in London, has been as reluctant to relinquish its training function just as the British empire was reluctant to relinquish its governance of the colonies.

It is worthwhile pointing out that changes in banking practice have and are taking place. Accordingly, it would be improper to assume that the accounting and finance inputs into the B. Com. curriculum should remain static. Change is taking place both in relevant subject matter, methodology and circumstance under which what is taught is taught.

The fact that the concepts, principles and procedures in accounting and finance functions underlying the job descriptions in the banking industry are included in the current curriculum at the university does not necessarily mean that a banking option is not needed.

5. Summary and Comments

IDS/WP 309

The ties between education, training and Kenyanization are not severable. One can not look into one without seeing the other. Consequently, our concern has been with education and training for accounting and finance functions in Kenya's banking industry in relation to the transfer of jobs into the hands of Kenyan citizens - Kenyanization.

Having defined the problem as one of the relationship between managerial /executive job positions and education, our discussion proceeded to review briefly the pertinent literature - general, specific and empirical studies. This literature showed clearly that the educational system and process are intricably linked to the economy in a circle of causes and effects that are far from beneficial. Consequently, the "educational system..." must be changed in order to provide a better means for the expression and attainment of modern African aspirations. As the system is now organized and structured, it is not only expensive but it interacts with social institutions in ways which generate considerable disappointment and suffering"⁴¹ Our endeavour is energized by the need to discover what ought to be changed in the educational process and towards what direction.

Change is a disturbing factor. To systems that have settled into some sort of equilibrium, proposals for change are always resisted oftentimes violently. Kenya's system cannot be deemed as an exception. All may be convinced that change is inevitable but not many can agree on what should replace what is in existence.

A review of background circumstances in connection with this inquiry showed that there was a banking option under accounting and finance in Commerce at the University but the option was discontinued as a result of meetings between university officials and banking executives. Since all persons involved on both sides were expatriates, the motives are unclear. (derail development?)

Our discussion continued to cover Mr. Peacock's work and expectations of the Central Bank. It was observed that the banking industry did not think highly of Mr. Peacock's work and recommendations, but the Nairobi center of the Institute of Bankers is being converted into an autonomous body: the idea being that, as an autonomous body, it would effect localization of training material and examinations, and thereby, speed up Kenyanization in the industry.

We moved on and discussed accounting and finance in banking in order to put the subject matter of our inquiry in focus. We went beneath and between the main peaks and valleys in the accounting terrain of data capture, processing

and presentation. Though the finance functions are less "cut and dried", our discussion was as equally precise. We did observe that in day-to-day operations, it is very difficult - if not impossible - to specify the discipline that has direct bearing on the execution of functional responsibilities.

The last section discussed the banking industry in Kenya, starting at the apex, central bank of Kenya and ending with the accounting and finance concepts and principles underlying the functional responsibilities of the banking officers. The discussion encompassed the "in-house" educational endeavours in the industry in addition to the correspondence courses conducted by the Institute of Bankers, London.

The study is still going on and therefore, no conclusions can be drawn.. However, some comments would appear to be quite in order.

No one disputes the notion that fundamental changes in the educational process are needed. But this should not mean that every sector should "do its own thing" as if it exists and operates in a vacuum. But the banks, and other enterprises for that matter, have a right to institute and conduct their own training programmes. The trouble lies in whether the outcome of such programmes, the graduates of such training programmes, are in accord with the country's aspirations.

As we have seen, the "in-house" educational endeavours are aimed mainly at "lower management personnel", and can best be described as "Training" as contrasted to "Education". In the language of Mr. Peacock, "Training can be regarded as the process of bringing bank officers to a desired state of efficiency in specific duties by instruction and practice... it can produce competent clerks but by itself it will not, it can not produce able and competent managers...."⁴² But, can the banks rely on the educational system to produce the competent managers?

With the exception of the central bank, the National Bank and Kenya Commercial Bank, the industry does not seem at all keen on hiring University of Nairobi graduates. They reason that a teller or bookkeeper does not need all that education, and when it comes to the "officer" level, the University is "out of it". The banks have "no confidence in the University Faculty of Commerce which lacks continuity and perhaps also, therefore, sense of dedication."⁴³ Obviously, neither Mr. Peacock nor the banks are aware that the expatriate professors who in their view, lacked dedication are now, almost all gone and their positions filled by Kenyans, hopefully dedicated and with a clear sense of mission. But one can not be oblivious of some frustrating factors that may end up breaking faith and dedication of the committed Kenyans.

As pointed out in an earlier inquiry, "The Africanization programme led to the well known "promotion block" caused by the fact that most senior officials achieved their posts while comparatively young.... This aggravated as the incoming officers.... frequently tended to have had more education than their superiors. It bred a tendency towards hierarchical and defensive attitudes, an avoidance of delegation among those at the top and frustration among those lower down"⁴⁴ Let us hope that in the self-interest of the Faculty of Commerce in redeeming its image, this does not happen, or, it stops happening.

There is another fact that refuses to be ignored. Suppose the faculty of Commerce produces brilliant, shining and very competent banking personnel by whatever standards and the banks refuse to hire them! Then what?

There seems to be a contradiction between the avowed policy and what happens in practice. In a free enterprise system, the banks, or any other enterprise for that matter, can literally "close shop" and go home to India, Netherlands - wherever they come from.

The core of our problems seem to lie deep in our economic policies. The contradictions are clearly portrayed by Colin Loya in stating that "... in some sectors, the government bought a controlling interest, but without materially changing the premises of the system or even its detailed operation. Even if it had wished to do so, it could not have done it by the means it adopted; nor did accelerated Africanization of foreign companies' personnel or measures of control seriously limit the freedom of foreign investors to operate as they pleased."⁴⁵

Change in the educational system and process must be accompanied by change in the thinking employed in designing economic plans and policies for their implementation. This has simply to be so because "throughout history, whenever major, important development changes (or any changes) have occurred to get things on a different track, governments, using the coercive force of command, have always had to play a big role."⁴⁶

In the final analysis, the educational system and process reflect the values of the society. Trying to change reflection without changing what is reflected is obviously a losing battle.

The movement to convert the Nairobi Center of the Institute of Bankers into an autonomous institute is a very welcome development. Obviously, the concerns of the Institute are conditioned by general problems and issues while concerns of the banking industry in Kenya ought to be conditioned by the specific and peculiar issues and problems of "underdevelopment" and Kenyanization.

Obviously, coordination between a local institute and other relevant bodies is certainly easier than coordination with a body that is all the way in London.

To conclude, it must be observed that education for accounting and finance functions in banking cannot be viewed in isolation. It is part and parcel of the overall education in the country and the whole system needs re-designing.

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19. Ibid. p. 3.
20. Peacock, op. cit. p. 2.
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31. John J. Klein, Money and the Economy, p. 30.
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36. Kenya Commercial Bank Training School, Course description. - p. 2.
37. Report of the Training Review Committee, p. 20.
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APPENDIX

INTERVIEW GUIDE

The Personnel Officer, Manager or Director,

This questionnaire does not ask for either your name, or that of your bank. The survey, similar to many that have been done in other countries - the United States, for instance - is aimed at determining the accounting concepts, principles and procedures underlying the accounting, financial and book-keeping functions and tasks ordinarily assigned to newly recruited college graduates.

The anonymity of the information you provide shall be scrupulously protected. At your request, a summary of the results will be sent to you.

1. In the finance and accounting department(s) section or division how many job categories do you have whose minimum qualifications requirements is a college degree.

Number of job categories -----

2. What are the functional responsibilities or job descriptions:-
Start with the lowest to the highest:-

3. Are newly recruited employees required to undertake a training program?
A. Yes No.
B. What is the name of the training program?
C. What is the duration of the training program?

4. In considering applicants for the finance and accounting departments or sections, do you have preference for any qualifications (degrees) such as B.Com. over B.A. for instance?

If yes, what is the preference?

5. In line with question 4 above, do you have preference for qualifications (degrees) from any particular University of Country?

If yes, what is the preference?

6. In your opinion, what is the best way of educating bank officers?

Academic Education
Professional Education
On the Job Training

7. In your opinion, how useful is formal Education in job performance?

A. Very Useful B. Useful C. Not Very Useful D. Not Useful at all E. Don't know.

8. In your opinion, how useful is formal Education in getting the job.

A. Very Useful B. Useful C. Not very useful D. Not useful at all E. Don't know.

9. Comments: Please comment freely on the usefulness of formal Education in both getting the job and executing functional responsibilities.

Optional: If you wish to see a summary report of the survey, please give name and address to which the report should be mailed.

Name
Address

So as to maintain the anonymity of the information you provide by responding to this questionnaire, please cut off this part with your name and address and return it separately to

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